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Louisiana Recovery Authority

The Road Home Affordable Rental Housing and Eligibility of Mobile Home Owners Action Plan Amendment for Disaster Recovery Funds



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1. Introduction

Hurricane Katrina hit the State of Louisiana on August 29, 2005, and Rita slammed into the state on September 24, 2005. They were the second and third Category 5 hurricanes of the 2005 hurricane season. The storms were deadly and costly to communities throughout the Gulf and particularly destructive to Louisiana. More than 1,100 persons lost their lives in Louisiana; approximately 18,000 businesses were destroyed; roads, schools, public facilities, medical services were washed away; and thousands of people were forced to relocate.

The storms destroyed or severely damaged an unprecedented number of properties.

- 123,000 homes were destroyed or suffered major damage.
- 82,000 rental properties were destroyed or suffered major damaged.
- Housing repair costs are estimated at $32 billion. Some, but not all, of this was insured.
- Of the rental and owner occupied units that are now uninhabitable, a substantial portion were occupied by low income households.

The US Congress has appropriated funds for recovery in two public laws. The first supplemental appropriation, PL 109-148 provided $11.5 billion to the states of Mississippi, Louisiana, Alabama, Florida and Texas through the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) Program. Louisiana received $6.2 billion of those funds. The second supplemental appropriation, PL 109-234, provided an additional $4.2 billion in CDBG funds for Louisiana.

Governor Kathleen Babineaux Blanco has prioritized housing redevelopment, infrastructure rehabilitation, and economic development as the primary uses of the two supplemental appropriations. The supplemental CDBG recovery funds are available to the State subject to HUD approval of Action Plans which describe how the funds will be used. The Louisiana Recovery Authority (LRA) has been charged by the Governor and Louisiana Legislature with statutory responsibility for developing policy and the required Action Plans. The Louisiana Office of Community Development, the agency that administers the State’s annual CDBG Program, will administer the supplemental CDBG recovery program.

To promote sound short- and long-term recovery planning at the state and local levels that impact land use decisions and reflect the need for responsible flood plain management and growth, the State, through the LRA, is leading community planning efforts in the most affected parishes. Dubbed *Louisiana Speaks*, this effort is a multifaceted planning process to develop a sustainable, long-term vision for South Louisiana in the wake of the destruction caused by Hurricanes Katrina and Rita. The plans developed locally through *Louisiana Speaks* will be supported by CDBG allocations. The redevelopment of communities will be guided by the plans derived through *Louisiana Speaks* and other local planning efforts.

2. Low Income Housing Tax Credits Piggyback Program

2.1 Action Plan Changes

The purpose of this Action Plan Amendment is to clarify and update several of the rental housing program descriptions previously published in the Action Plan Amendment of April 6, 2006—the *Piggyback Program* (Section 3.1 of the April 6th Amendment), *Services for Supportive Housing* (previously Section 3.2), and *Flexible Incentives for Mixed income Development* (previously Section 3.3). This amendment makes the following changes to the above programs:

- Specifies that the *Flexible Incentives for Mixed Income Development* is actually a component of the *Piggyback Program* and accordingly moves the $41,560,000 which has been allocated to this effort into the Piggyback allocation where it more properly belongs.

  This brings the total allocation for the Piggyback program from the $552,410,000 cited in the original Action Plan to $593,970,000. The creation of Mixed Income Developments remains a primary goal of the Road Home rental housing programs, and a significant portion of the Piggyback program funds will be devoted to spurring mixed income projects that provide Market Rate housing as well as Workforce Housing and housing for extremely low income households.

  As indicated in previous Action Plans, the Piggyback Program funds will be allocated to specific developments in accordance with the competitive funding provisions of the Louisiana State Housing Finance Agency's (LHFA) Qualified Allocation Plans (QAP). As a result of the availability of alternative types of rental assistance (e.g. Project Based Section 8, Project Based Voucher Assistance, and Public Housing Operating Subsidies) to ensure affordability for households with incomes below 20%, 30%, and 40% of Area Median Income, it is now anticipated that a smaller amount of CDBG funded Project Based Rental Subsidy will be needed than was thought earlier. In addition, the QAP includes a significant allocation for Mixed Income properties that likely will need more Gap Financing than was thought earlier. However, until the applications are received by LHFA and OCD, the precise split between subsidies directed toward deep affordability and subsidies designed to spur mixed income development will not be known.

- Clarifies that *Piggyback Program* funds may be allocated rental housing projects financed in part with the LHFA's regular allocation of Low Income Housing Tax Credits and tax exempt bonds—the April 6th Amendment implied that the State would only combine CDBG funds with the special Gulf Opportunity Zone Low Income Housing Tax Credits which were appropriated by the Congress in response to the storms.

- Provide additional information on the design of the Piggyback Program (see following section).

Future Action Plan Amendments will describe other aspects of the State's supplemental CDBG recovery program.

2.2 Low Income Housing Tax Credits Piggyback Program Overview

The LIHTC-CDBG program (referred to as the "Piggyback" program in the Louisiana Recovery Administration Action Plan) supports affordability for especially low-income Louisianans in properties receiving Low Income Housing Tax Credits (LIHTC), which are allocated by the Louisiana Housing Finance Agency (LHFA). The State is seeking to promote the following types of rental housing units:

- **Workforce Housing Units.** Including *market-rate units*, units initially affordable to households with incomes below 80% of AMI and *units affordable to (and restricted to occupancy by) households with incomes below 60% of AMI*.

- **Additional Affordability Units.** OCD and LRA seek to facilitate development of units affordable to (and restricted to occupancy by) households with incomes at or below 20% of area median income ("AMI"), hereinafter referred to as "20% AMI Units;" 30% of AMI, hereinafter referred to as "30% AMI Units;" 40% of AMI, hereinafter referred to as "40% AMI Units."

- **Permanent Supportive Housing ("PSH").** OCD and LRA also seek to facilitate the development of permanent supportive housing for a variety of households including extremely low income people (30% of AMI and below) with serious and long term disabilities, and/or who are homeless and/or who are most at-risk of homelessness. OCD and LRA will pursue two PSH strategies:

    - The primary strategy is a PSH Set-Aside Program, under which all properties that receive 2007-2008 GO Zone Credits will agree to make at least 5% of total units available to PSH clients, who will be supported by appropriate services (provided through local agencies using CDBG funds).

    - The secondary strategy is development of PSH properties (in which at least 15% of units are designated for PSH clients). PSH clients will be supported by appropriate services (provided through local agencies and the property's sponsor using CDBG funds).

Permanent supportive housing is an "evidenced-based" best practice housing model which provides affordable rental housing units in a non-institutional setting linked with flexible community-based supportive services. It is anticipated that a significant number of PSH units will be created in PSH developments due to the priority granted through LHFA's QAP and the availability of additional Piggyback funding. In addition, it is certain that a large number of PSH units will be created within Mixed Income, Additional Affordability LIHTC, and non-CDBG GO Zone developments, through the required set-aside of at least 5% of total units.

In addition, in accordance with the second supplemental appropriation, PL 109-234,, the Piggyback Program (through the QAP) will place a special emphasis on the rehabilitation of damaged Public Housing developments and other assisted housing developments affected by hurricanes Katrina and Rita. This program will also address the special housing challenges faced by people with disabilities.

Financing Tools

To support these goals, OCD will make available the following types of financial assistance:

• **Louisiana Project Based Rental Assistance** –operating support funding will be available for units affordable to households with incomes below 40% of AMI.

• **Louisiana Mixed Income Flexible Subsidy** –financial support for Mixed Income developments.

• **Louisiana Additional Affordability Gap Financing** -- gap financing for Additional Affordability LIHTC developments, potentially including projects financed through tax exempt bonds and LIHTCs.

• **Louisiana Permanent Supportive Housing Gap Financing** -- gap financing for Permanent Supportive Housing developments.

• **Louisiana Supportive Services Grants –** funding for the cost of supportive services for occupants of PSH units.

Allocations of Piggyback Program dollars among these financing options will be determined based upon the responses to the QAP. These responses, in turn, will be shaped by development costs, and anticipated operating costs for rental projects.

Additional Information

Additional information on the Piggyback Program can be found in the draft program design document posted on the Office of Community Development's website at www.state.la.us/cdbg/DRactionplans.htm.

3. Small Rental Property Repair Program

Before the disaster, a large portion of low income and other working families lived in small rental properties - single-family homes, "doubles" and small, multi-family buildings - that were owned and operated by small-scale owners. A sizeable number of these properties were underinsured or uninsured and no longer available for occupancy. The State proposes to provide up to $869,000,000 in financial assistance over the next 10 years for the repair and/or reconstruction of an estimated 18,000 of these small-scale rental housing units.[1] The primary purposes of this financing program is to enable small-scale rental properties to return to the market while limiting the amount of debt (and therefore debt service) required for the properties so that the owners will be able to charge affordable rents. This Action Plan Amendment clarifies and updates the program description that was previously published as part of the Road Home Action Amendment #1.

The Small Rental Property Repair Program will, on a competitive basis, provide financing to qualified owners who agree to offer apartments at affordable rents to be occupied by lower income households. Subsidies will be provided on a sliding scale, with the minimum subsidy provided for units made available at affordable market rents (rents affordable to households with incomes at or below 80% of median) and maximum amount of subsidy going to units affordable to families with incomes at or below 50% of AMI. In addition to funding incentives for providing affordable units in small rental properties, the program will, where practical, make funds available to improve building design and make properties less susceptible to damage from natural events.

Eligible properties will be selected based upon a preference for properties located in well-designed residential communities and in neighborhoods that also include families with incomes higher than the area median. Each application will be scrutinized by underwriters in light of selection criteria to be developed by the State and based on the proposed project costs. The State reserves the right to negotiate with applicants to seek the best possible outcomes for each project while preserving valuable incentive funds.

In exchange for accepting financial incentives, property owners will be required to accept limitations on rents (with inflation clauses) and incomes of renters for a period ranging between 3 and 20 years, to assure that the assisted housing remains affordable

[1] The number of units assisted will depend on the average amount of subsidy per unit. In general, the more affordable the rents, the higher the subsidy per unit, and the fewer total units that will be funded.

and is occupied by families with incomes corresponding to several tiers of affordable rents. The amount of CDBG financing available will range from $10,000 to $100,000 per unit (with the highest awards available only where special circumstances warrant this level of assistance). In general, higher per unit amounts will be available to property owners who agree to offer lower rents to reflect the lower amount of rental income these properties will receive and their more limited ability to retire debt service. The assistance will be offered as deferred payment loans at 0% interest, due only upon resale of the property or failure to comply with the agreed-upon restrictions on rents and household incomes.

Unlike the *Road Home* Homeowner Assistance Program, funds for the Small Rental Property Repair Program will be insufficient to provide every eligible property owner with enough money to repair or replace their rental properties. Prioritization of properties that will be selected for assistance will be based on factors including, but not limited to, the following:

- Property owners demonstrating financial and technical capacity to obtain matching market-rate financing, if necessary, to carry out the repairs, and to provide excellent property management services; and

- Properties that are most cost-effective to repair or replace, and located in areas that have adequate infrastructure and redevelopment activities occurring.

- Properties held by small-scale owners where rental revenue constituted a majority of household income and/or assets so long as these investor-owners meet the threshold requirements for capacity necessary to repair or replace, and then manage their units.

Eligible properties include:

- Small Rental Properties
- Small Owner Occupied Properties with one or more rental units

It is anticipated that the majority of buildings assisted through this program will be between one and four units, though multiple properties under the same ownership (whether they are scattered or contiguous) may be rehabilitated as a single, larger project if practical.

Note: Owners of doubles (2-unit properties) who rent one unit and live in the other must decide whether they will receive compensation through the Road Home Homeowner Assistance Program or through the Small Rental Property Repair Program. If the Road Home Homeowner Assistance Program is chosen, the full double-unit structure will serve as the basis for calculation of assistance up to the program cap of $150,000. If the owner elects to <u>compete</u> for funds from the Small Rental Property Repair Program and is selected, the property is eligible for assistance for both units, but is subject to the caps and limitations stated above.

Using resources allocated to the Small Rental Property Repair Program, the State may develop pilot programs to provide incentives, not only for repairing damaged rental properties, but converting them to owner-occupied housing.   For example, a Lease-Purchase Pilot Program would allow a owner to sell a repaired one-family or two-family rental property to a low- or moderate-income homeowner, rather than rent the home. A Homebuyer Assistance Pilot program would allow low- and moderate-income households to purchase un-repaired one-family and two-family former rental properties and carry the home through the repair process. Creating first-time homebuyers would be a priority, but the pilot program may also serve buyers who have previously owned homes. Homeowners who are exercising the "sell" or "relocate" option under the Road Home Homeownership Program are not eligible to receive additional financial assistance from the State through these pilot programs. Pilot programs will be expanded if successful using funding from the budget for the Small Rental Assistance Program as well as other sources that may become available.

Participants in the pilot programs as well as owner-occupants of small rental properties may have access to expert financial and construction advisors to assist them with refinancing and reconstruction, or if they so desire, to sell their properties to developers using other programs designed to provide affordable housing.

4. Amendment Regarding Assistance to Owners of Mobile Homes

This action plan amendment proposes to amend the last published version of the Road Home Homeowner Assistance Program regarding eligibility of owners of mobile homes. This amendment defines that all owners of mobile homes who otherwise meet the definitions of eligibility under the program may be eligible for assistance under the Road Home Homeowner Assistance Program. The language in the Action plan amendment, the first paragraph of on page 14, currently reads:

"Owners of Mobile Homes: To qualify for homeowner assistance, the owner of a manufactured home or mobile home must also own the land on which the damaged home was located."

That sentence shall be replaced with the following:

"Owners of Mobile Homes: Owners of a manufactured home or mobile homes may also be eligible, to be determined by criteria developed in order to ensure ownership and immobilization of the structure."